



## Informal Sector's Role in North African Economies Tied to Instability

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The July agreement between the EU and Tunisia on countering irregular migration indicates that support for North African economies is an increasingly important element of cooperation between the EU and countries in the region. A characteristic feature of these economies is the prevalence of the informal sector, where workers operate in extremely unstable conditions, prompting protests or decisions to migrate. To increase the effectiveness of its actions, the EU should therefore support North African countries in ensuring decent working conditions in this sector.

**Impact of the Informal Sector on an Economy.** This sector includes the production of legal goods and services by unregistered entities, as well as unregistered employment in formalised enterprises. The most important risks arising from this phenomenon are the lack of protections for workers and lost tax revenues to the state budget from unregistered activities. This leads to a reduction in investment by companies from the formal sector, which are forced to cut costs due to competition from informal companies (cheaper to operate by evading regulations). Corruption is also compounded, as unregistered businesses tend to pay bribes to avoid penalties for operating in the shadow economy. They often purposely limit their size to make them harder to detect, thus reducing their contribution to economic growth and employment. As well, their operation in an uncertain environment discourages the owners from investing, limiting their productivity and innovation potential, which is further undermined by such organisations' lack of access to support mechanisms like loans, subsidies, or training. These factors contribute to the severe frustration of informal workers. An example was the self-immolation in December 2010 of street vendor Muhammad Bouazizi in response to harassment by corrupt security officials, giving rise to the Arab Spring. Nonetheless, an uncooperative private sector and the cost of doing business are pushing especially poor people whose earnings

from small-scale activities would not allow them to cover their costs in the formal sector.

**The Informal Economy in North Africa.** The scale of the informal sector and informal employment in the region is the result of decades of low levels of investment and development in countries not matching the rate of [population growth](#). As a result, the informal sector employs the majority of the region's workforce—67% on average, and up to 80% in rural areas. A particularly large age group among the informally employed are those between the ages of 15 and 24. They are associated with a preference for finding work in the public sector due to higher wages, shorter working hours and access to better social benefits, as well as a lack of attractive offers in the private sector. Young people do not want to lose their status as first-time job seekers and the benefits that come with it (such as free training or job search support), so they are employed in the shadow economy hoping to receive an offer from the public sector.

Women are also a group particularly vulnerable to having to work in the informal sector, illustrating the gender inequality in the region. In the formal sector, women often face discrimination, and employers see hiring (potential) mothers as a risk. The prevalence of women employed in the informal sector is also due to their frequent employment in agriculture, where about 90% of jobs are unregistered. In addition there are other barriers: in Egypt, for example,

a portion of social benefits is calculated on the number of earners in the household, often resulting in women dropping out of formal employment to increase the benefits.

At the same time, the informal economy remains crucial to the relative stability of countries facing permanent crises that discourage foreign investors or are unable to absorb a rapidly growing labour force in the formal job market. This role is forfeited to the informal sector, which provides the resources necessary for the survival of the poor (which makes up, for example, about 30% of Egypt's population or 18% of Tunisia's). Its income is not enough to cover the fees associated with running a registered business.

**Reforms and International Cooperation.** International financial institutions such as the IMF and the World Bank, as well as the EU, have only addressed the problem of the informal sector through institutional reform programmes involving the reduction of the public sector, subsidies, and bureaucracy, and through the simplification of procedures necessary to open a business. However, they do not entail the creation of a sufficient number of jobs in the private sector. This has caused some former employees in the public sector and state-owned enterprises to move into the shadow economy, which is further compounded by dynamic urbanisation. For example, IMF-inspired or supported reforms implemented since the 1970s led to the development of large farms at the expense of family farms, resulting in a dynamic exodus of the rural population to the cities where they had no chance of finding formal employment. This contributed to the domination of the construction or small-services sector by informal workers. The rapid growth of the group of people operating in precarious work conditions and the accompanying reduction of subsidies led to a wave of “bread riots” in the 1970s and 1980s in Egypt, Tunisia, and Morocco. After the Arab Spring, the terms of loans Tunisia received from the IMF in 2013 and 2016 contributed to the impoverishment of the low- and middle classes and mass protests in 2018.

Countries in the region are trying on their own to integrate the informal sector into the official economy mainly by simplifying taxes and bureaucracy. In 2004, Egypt introduced a three-year tax exemption for new businesses and the possibility of tax refunds for companies that formalise their operations. As a result, the number of companies registered in Egypt increased by 35% between 2005 and 2012, and while informal employment in non-agricultural industries declined, it increased among agriculture workers. Tunisia introduced similar regulations in 2020. Morocco has tried to encourage the formalisation of street vendors by building new stalls, but many have remained abandoned due to vendors' preference for the old locations. Initiatives

integrating informal workers into the welfare system are also on the rise. In 2022, Egypt approved a new labour law providing for the creation of a fund for unregistered and seasonal workers. In Tunisia, the Tunisian General Trade Union (UGTT) has been particularly active in this regard—in 2020, the government passed a law on social and solidarity economy that increased protection for informal workers (the union created a draft of the law in 2017).

Support for formalising unregistered activity will be a factor in the success of EU economic aid to North African countries. Such aid is increasingly seen as a tool to combat irregular migration from these countries—a priority for the EU in its cooperation with its southern neighbours. This is evidenced by the July agreement between the EU and Tunisia on curbing migration from the country under which the EU will provide €150 million to support the Tunisian budget and another €900 million if the country accepts the terms of further financial assistance from the IMF (which most Tunisians oppose).

**Conclusions.** Unsavoury conditions and the workers' experience of corruption and brutality by state services in the informal sector are among the key factors that lead to mass protests in North African countries in 2011. Given the continuing [debt crisis in Egypt](#) and Tunisia, the proliferation of the informal sector and further decline in the standard of living of those employed in it increases the risk of another wave of instability in the region. To head it off, it is necessary to support North African governments in building institutions that will provide social welfare for informal sector workers.

The main obstacle to integrating the informal sector into the official economy, however, remains insufficient economic development. It is hampered by the scale of government corruption and a deepening [tendency toward autocratisation](#). There is a lack of will on the part of the authorities to change the social contract based on the dominant role of the state as an employer, which hinders the development of the private sector. This is accompanied by the further growth of the informal sector and the progressive disintegration of the labour market, which further exacerbates the lack of trust in state structures. Therefore, the EU's economic support for the region must not only be based on financial assistance but also on encouraging deep institutional reforms that will increase citizens' trust in the state, improve their quality of life, thereby reducing destabilising factors and deterring investors. Such support could include working with local labour unions and non-profit organisations that support informal sector workers and help identify factors that facilitate the decision to formalise.